RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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June 17, DJIA 920.45; PTI 869; A-D Ratio −18.85
June 24, DJIA 929.70; PTI 883; A-D Ratio −18.06

THE MARKET: If you are an investor and sometime-trader in automobiles, you have probably developed a high level of automobile expertise over the years. You look at a car very carefully before you buy it, noting its condition, its appearance, its engine, its body, its paint, plus a hundred other items, many of which the amateur may not notice. If the auto "feels right" to you, if the market for it is right, if it's a value, you may buy it. But if something bothers you about the car, if say the cost of repairs doesn't warrant the investment, then despite the temptation, you will probably pass it over.

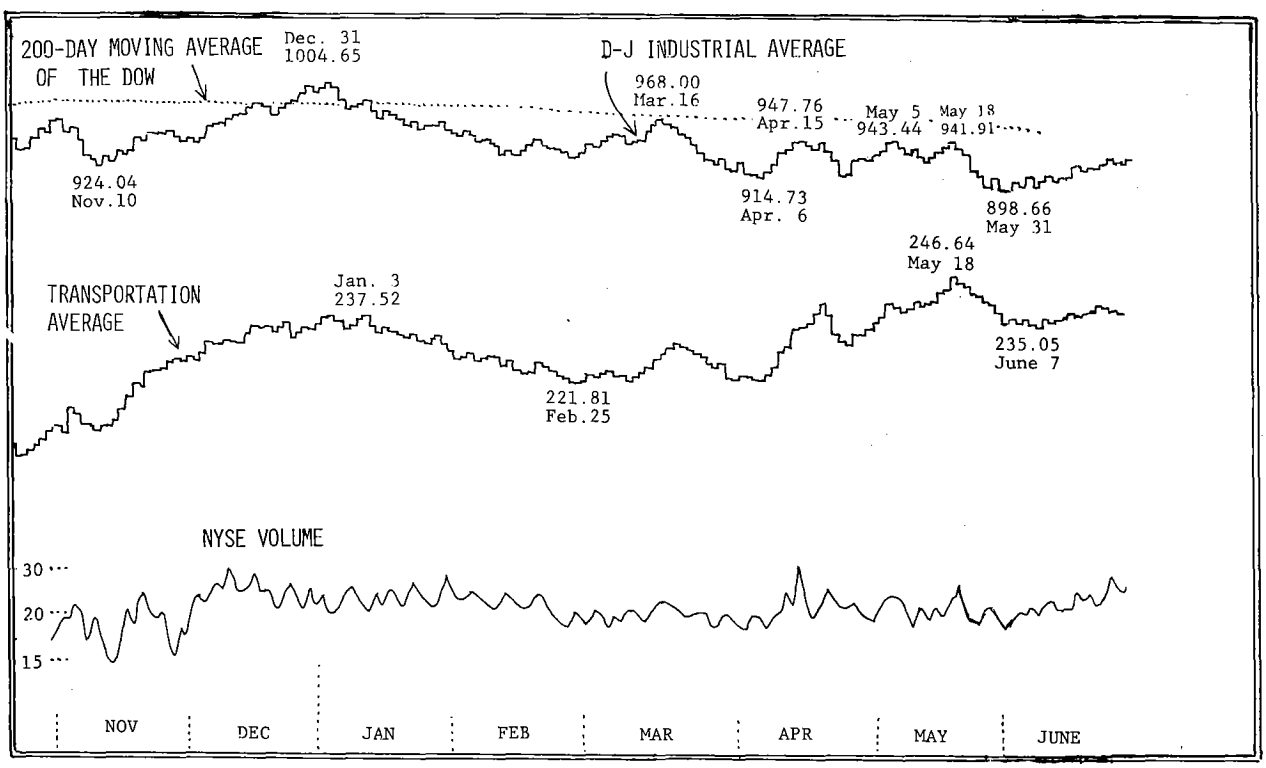
You act most professionally in your auto decisions. And thousands of other intelligent people act intelligently in their own line of business. But when it comes to the stock market, alas, the calmness, the straight thinking, the expertise all seems to fade away. And it fades away in favor of emotions. As I see it, market emotions are basically a matter of fear and greed. The greed says, "I better jump in on this rally, it may take the Dow straight up to 1200. I'll make a killing." And the fear says, "This may be the last good rally for months, even years to come. I've got to get in on it, I'll never forgive myself if I miss it."

In many recent Letters I have been showing subscribers that the various market averages and indicators have gotten "out of whack" during the period of early 1976 to the present. Many of the analysts are fond of using the term "two-tier market" in describing the action of the past 15 months. Thus, it is noted that the unweighted averages and indicators such as the Advance-Decline ratio or the Value Line Average have pushed to new highs. Meanwhile, the weighted averages such as the Dow, the Standard & Poor 500, the D-J 65 have been moving sideways or even sliding off, reflecting the fact that the stocks with the larger capitalizaions have had far more difficult going than the currently popular smaller (but "undervalued") corporations.

"Then why not just go with the undervalued winners?" you ask, "why not just buy the little fellows, the stocks that are pushing up the unweighted averages?" And my answer is that these are the same stocks I recommended ever since the bull market started in December, 1974. In all my recommendations of 1974, 1975 and 1976 I pointed subscribers towards the smaller, greatly undervalued stocks, stocks which in many cases had dropped 70% to 85% during the 1973-74 crash.

But more recently, as the Dow turned progressively weaker, as the weighted averages diverged with the "rest of the market," I have felt that odds for a profitable advance were slimming. In the last Letter I included a discussion of all the major divergences in the Averages in modern history. And the conclusion was that when a major divergence (such as the one we are now witnessing between the Industrials and Transports) occurs following an important rise, then we can infer that distribution has probably taken place. Now mind you, I am well aware of the old adage which states that "the market can do **anything.**" But I also know that neither I nor my subscribers have to be in the market every minute and at all times.

A major divergence such as the current one between Industrials and Transports or the one between Industrials and the A-D



ratio can result in a violent market **either way**. If the current stalemate results in a sharp spill and my subscribers avoid painful losses, then I will have done my job. On the other hand, if the current divergence gives way to a big advance, then we can certainly climb aboard if we want to.

Since the guts of the divergence has been, and still is, the reluctant D-J Industrial Average, the time to buy (assuming the resolution is to the upside) would be either (1) following a decline and an oversold condition in the general market, or (2) when the Industrial Average *changes character* and gives evidence of wanting to move out on the upside.

In my opinion, the second option would be less satisfactory than the first, because any Dow advance from here would mean that the market was going from a rather overbought condition to an even more overbought status. I've seen primary bull movements that remain overbought for months on end, and this could be such a situation. But again, I don't like to speculate in overbought markets. I prefer waiting (like the auto buyer previously mentioned) until the market conditions are more to my liking.

All right, let's turn to the page 1 daily chart of the D-J Averages and see what we can come up with as far as Dow's market barometer is concerned. The last lows were recorded by Industrials at 898.66 on May 31. A few days later, on June 7, the Transports touched a low of 235.05. Since then the two Averages pushed rather *laboriously* higher. It is interesting to note the steady expansion of volume on the rise, but despite the increasing volume excitement generated by the rally, the action of the Averages was rather strange.

By June 21 Industrials reached a peak of 928.60, only 30 points above their May 31 low. This represented a gain of only 3.3% during three weeks of upside action. The Transport advance was even more listless. On the Transport rise from the June 7 low of 235.05 to their June 20 peak of 239.38, the carriers gained only 4 points or 1.7%.

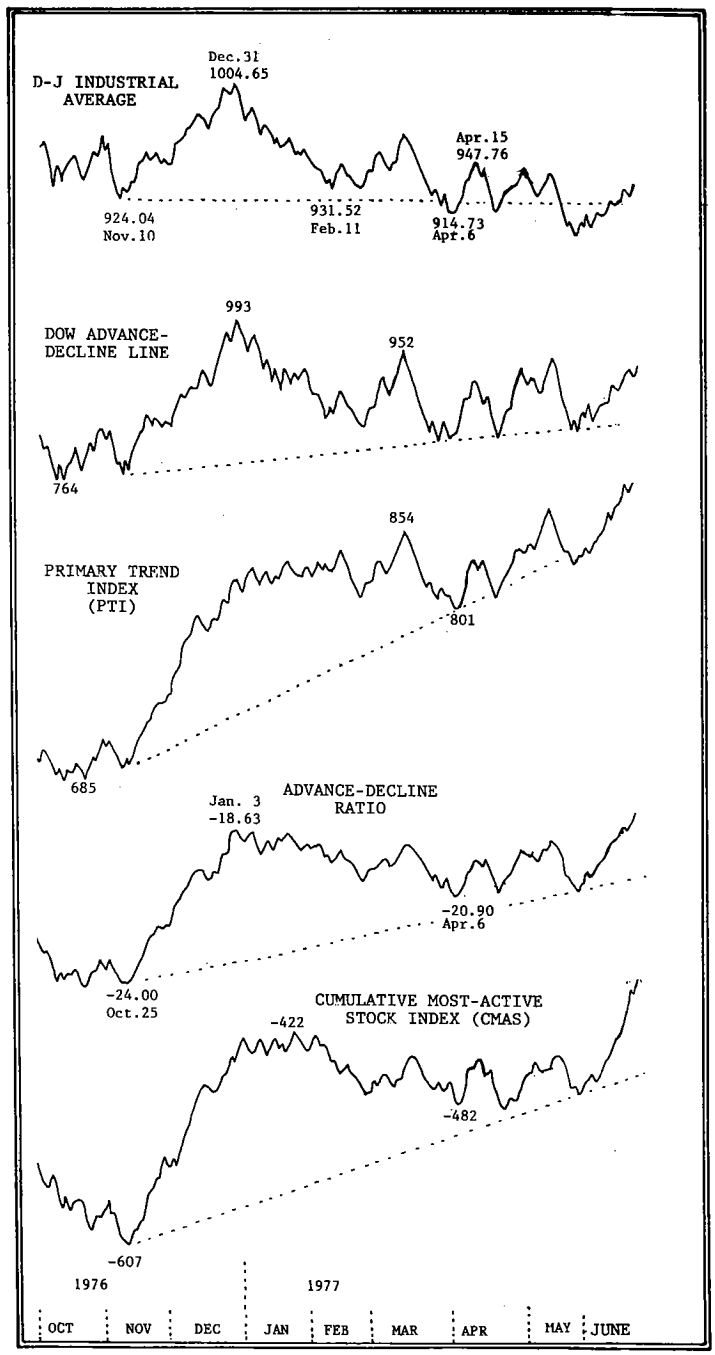
The significant factors regarding the June rally were these: (1) the Industrial and Transportation Averages appeared tired. (2) Neither Average was able to better its mid-May peak. (3) Transports changed character on the rally, appearing weaker than Industrials for the first time since last October. (4) Although the majority of stocks (as measured by the A-D ratio) rallied well during the June rise, this was the first time in 1977 that the Transports acted weaker than the general market.

Around June 20-22 my indicators showed the market to be very "over-bought," and that condition generally calls for a rest in the form of either a sideways movement or a decline. There is nothing either bearish or unusual about the market backing off from an over-bought condition. But the decline from an over-bought area often gives market students a chance to examine the under-pinnings of the market from a technical point of view.

If we do indeed get a retreat from the June 21 highs, it will be most interesting to see whether one or both Averages hold above their recent lows (Industrials above 898.66, Transports above 235.05). If both Averages break below their respective lows, then I would guess that this market could decline further to a true over-sold bottom, a situation which I, personally, would view as beneficial from the standpoint of the long-term health of the bull market. If one or both Averages hold above their recent lows, then it will be a matter of examining the situation when we get there (but I would doubt that the market will become oversold).

It is notable that the Utility Average hit a new bull market high of 115.64 on June 21. The D-J Utility Average has thus advanced slightly over 100% from its 1974 bear market low of 57.93, a sterling performance. The fact that the Utility Average (alone) recorded a new bull market high also suggests that the market is not worried about higher interest rates.

Conclusion: The market is overbought and it now remains to be seen how the market can unwind from this situation. The Averages were weak on the recent rally, and I am particularly interested to see if they (1) continue weak on any forthcoming decline, or (2) whether they tend to resist the decline. The action of the next two to three weeks will probably set the stage for the market during the rest of the year.



INDICATORS: Which is the tail, and which is the dog? We just don't know yet. On this daily chart (page 2) I am showing the D-J Industrial Average along with four of the breadth indicators which I compute daily. Ultimately, based on all market history, I do know that the dog and his tail are going to *fit together* in the correct manner, but so far we can only study the picture and scratch our heads.

The top line shows the daily closing of the Dow. The second line is an advance-decline line of the 30 Dow Industrial stocks only, and here we have an interesting picture. The Dow and its own A-D line were in gear up to April, but on April 6 the Dow broke to a new low. This low was not confirmed on the downside by the Dow's A-D line. Again on May 31 the Dow dropped, this time to a new 1977 low of 898.66, and again the Dow A-D refused to confirm. This provided the technical strength for a Dow advance.

So far, the advance in the D-J Industrial Average has not been particularly impressive. As this is written, the Dow has been in an upward trend for over three weeks, yet it has been unable to better its nearest (preceding) peak, the May 19 high of 941.91. Thus, the Dow (so far) is doing what it has been doing for the past nine months–tracing out lower and lower peaks without being able to better a single preceding peak. As long as this goes on, the market will have the potential for danger.

The third line on the chart is my Primary Trend Index (PTI), an index composed of eight critical indices and Averages. Last week the PTI pushed to a new bull market high, and there's no way of downgrading that action. The PTI looks strong, and this "should be" another plus for the market and the Dow.

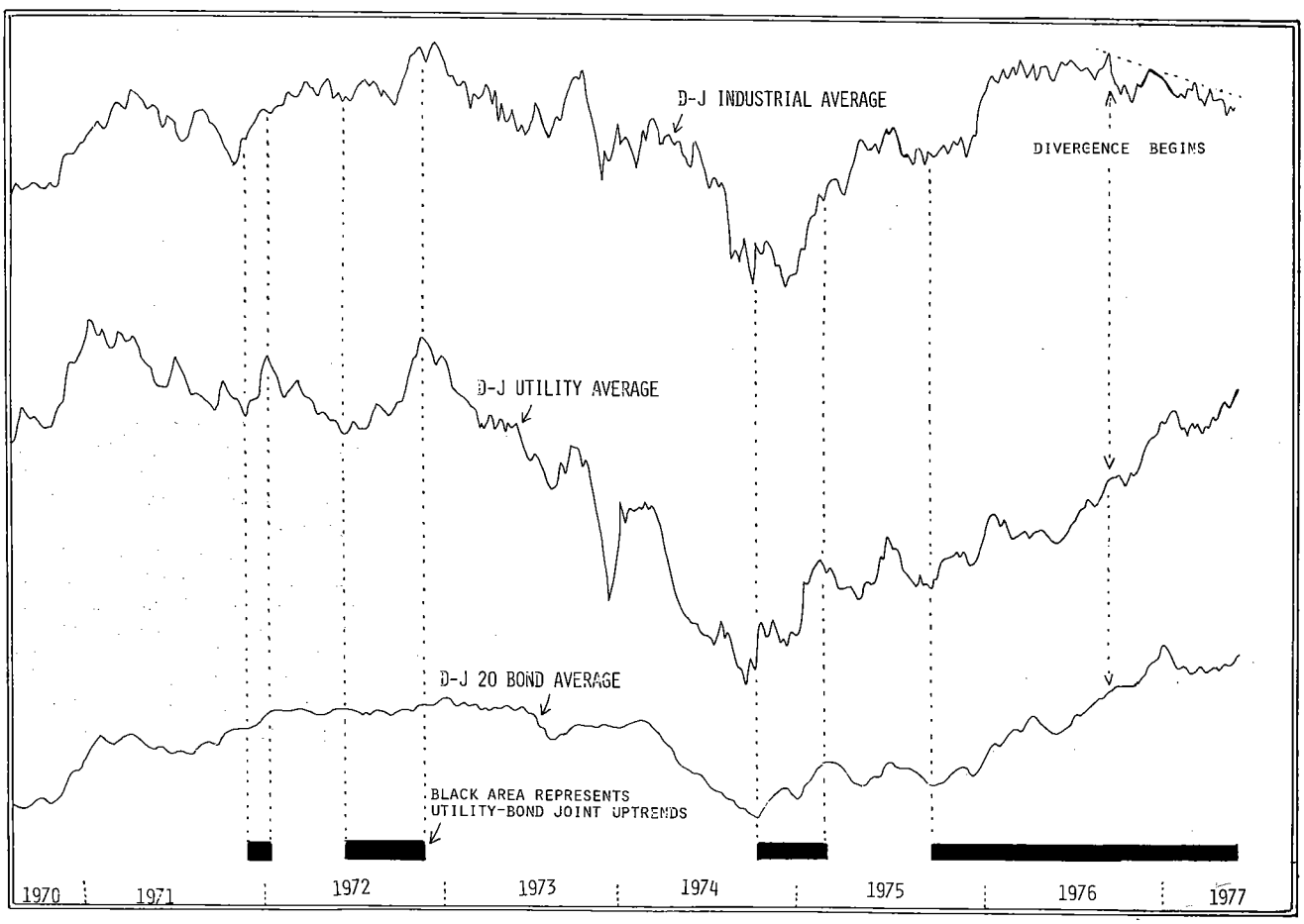
The exact same story is being told by the new bull market high in the A-D ratio (for the entire NYSE) and by the new high in the Cumulative most-active stock index. Both of these indices rallied to new bull market highs last week. Thus, the inference is that the trends of both the average NYSE stocks and the most-actively traded NYSE stocks are powerful. What more could you ask for as a background for an all-out market assault (including the Averages, of course) on the bull market highs!

But the market doesn't always provide us with easy readings. Nor does the market have to act logically or according to the rules.

Conclusion: So far the Industrial Average has failed to do what it "is supposed to do." You can say (1) that in time Industrials will come through, and that all will work out if we will only be patient, or (2) that when what is supposed to happen does not happen, then the market is telling us to be careful.

My own inclination is to stay neutral in this over-bought market. Almost every indicator and technical relationship I have suggests that the Industrial Average and the Transports should be roaring higher, thereby confirming the other indicators. The fact that they aren't keeps me cautious, not pessimistic, just cautious.

AVERAGES ARE TALKING: In the early 1960's I used to write a report that was based much more strictly on Dow Theory alone. At that time I ran an advertisement in *Barron's* with the caption, "The Story Is In The Averages." My Letters may contain a lot more varied material now, many additional indices and gauges, and I may be a bit more long-winded in my market interpretations. But I still firmly believe that the story is in the



Averages. And I still believe that all the information that anybody anywhere knows about business, finance and corporation profits is distilled down to the *daily action of the stock Averages.*

With that thought in mind, I want to present a study that is well worth pondering at this time. For many years I have drawn readers' attentions to the relationship of the interest rate-oriented Averages and the Dow. The two Averages which are interest rate-connected are the *D-J Utility Average* and the *D-J 20-Bond Average*. The D-J Bond Average was first formulated in 1915. The Utility Average was presented in 1929. Since 1929, when the **joint record** of both Bonds and Utilities were first made available to investors, there has been a most definite relationship between Bonds-Utilities and the Dow Industrials.

With no major exception, whenever the path of **both** Bonds and Utilities was up, the Dow Industrial Average worked its way higher. Conversely, whenever the joint path of Bonds and Utilities was down, the path of the Dow was down. There are a number of rationales for this phenomenon. One is that the Bonds and Utilities are very sensitive to money rates, and when the Bonds and Utilities are going down, they are reflecting a move to higher interest rates, which is a big negative for common stocks. A second rationale is that Bonds and Utilities represent literally the whole world of US debt, finance, and energy. And whatever is beneficial for this huge economic spectrum is also good for the rest of the stock market while whatever hurts the Bond-Utility world hurts all other stocks.

At any rate, I include my weekly chart (page 3) of the Dow Industrials, the D-J Utility Average and the D-J 20 Bond Average (all Friday closings). I have drawn a black bar at the bottom of the chart at each period in which the Utility and Bond Averages were rising **together**. Whenever the Utilities and Bonds were rising, the Industrial Average was also rising.

And then we come to the latest nine months, the period of September, 1976 to the present. This period is characterized by the first divergence between the Bonds and Utilities on one hand and the D-J Industrial Average on the other. As you can see, ever since late-1975 the Bonds and Utilities have been in a rising trend. Despite this, Industrials moved generally sideways during the February to September period, and ever since then the Industrials have been moving down.

When the market does something new, I am all eyes and ears. I have been watching this eerie divergence while asking myself, "What the devil is going on here?" At this point in time, I can offer only one theory. It is this: the banks are loaded with funds, the savings & loan institutions are up to their ears in money, the credit unions are swimming in cash–but there just aren't that many takers.

The fact is that the consumer is being squeezed by expenses. He is on a car-buying spree, and he is running the price of houses to the sky. But the consumer rate of savings is also down at a 10 year low, and the consumer is choked with debt.

The corporations, to the surprise of economists, are not living up to the expectations that they would go on "a great capital spending boom." In fact, the corporations seem much more prone to buy their own or someone else's stock than they are to spend money on capital expansion.

Thus, we have an unusual situation in the economy. There's plenty of cash around (the rumor is that the banks are lending under the official prime rate), there's ample liquidity around, but business, so far, just is not that great. In fact, many sophisticated authorities (Ben Webberman in *Forbes*, Eliot Janeway) believe that the recent boost in the prime rate was an utter phoney. The implication is that the banks are following the old saw which runs, "If I can't sell it at $19.95, I might just as well not sell it at $29.95." So they boosted the prime rate accordingly. But to the great frustration of the banking fraternity, the boost lasted about three days, and was then rescinded as other banks backed off and the boost fizzled.

So an educated guess at what might be occurring could run something like this. The money is there, lots of it, and any real rise in interest rates from here would be relegated to the category of a "phoney." Which explains why the market paid almost no attention to the recent ill-advised pop in the prime rate. Business, on the other hand, is looking at large inventories and unexciting sales, and the inventory to sales ratio is currently very high. The net result could be sliding production as corporations try to cut their inventories and get them in line with sales.

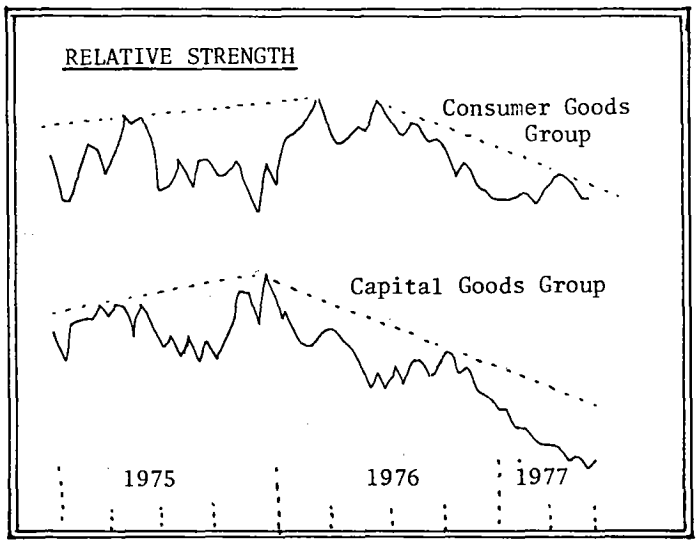
At any rate, we do have the extraordinary picture of a bullish trend in Utilities and Bonds in the face of a Dow that has been resisting on the upside ever since last September. There's never been anything like this kind of divergence. But it goes a long way to explaining why the market in general has been firm.

PROBLEMS: There is always a temptation to back up one's feelings about the market or the economy with carefully selected ammunition. If one is bullish, he collects bullish data; if he is bearish he siezes on bearish items. I am aware of this, and I try to avoid the temptation to "prove" my predictions with "advantageous news items."

Here are a few items that are interesting to me (personally, I am neutral to a bit wary regarding the economy for the rest of 1977). I have noticed a certain uneasiness on the part of consumers over the past few months. Of course the actual statistics show that consumers are now trying to save and to pay off some of their outstanding debts. This clip from our local paper's popular "Frank Rhoades" column is, I feel, incisive and to the point. It is telling us that women out here are growing more cautious about dumping their wardrobes and less prone to say, "Just sell it and give me whatever you can get for it."

> **MARIE M'LELLAN, I have noticed through the years, is one of the best business barometers around. She's in the resale clothing business, one store for high-priced women's wear, another for low and medium-priced garments. What's the picture, Marie?**
>
> **"I am expecting a boom in the fall, as most retilers seem to be, but right now business is slower than at any other time in my stores' 20-year history. La Jolla women used to dump an armload of dresses and tell me to sell for whatever I could get. Today, each of them leave off one or two and set a firm minimum price. Taxes are killing people, and everyone seems to be watching Carter. He hasn't kept most of his promises and they wonder if he ever will."**

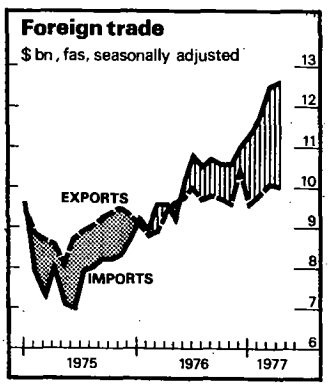
Next I want to include my relative strength charts of two broad groups, the *S&P Capital Goods Group* (containing 110 stocks) and the *S&P Consumer Goods Group* (188 stocks). Both groups are compared with the broad NYSE Composite Index, and what we see here is the action of the groups on a relative strength (not



a price) basis. The chart seems to be saying that the market did expect a capital goods boom and the height of this anticipation occurred around early-1976. Since that time the market hopes have steadily faded. As for consumer action, the market for these stocks did best around the end of 1975, but here too hopes have steadily faded.

My guess now is that the consumer stocks have probably discounted the worst of any disappointments to come during 1977. Note that RS for the Consumer Group has just blipped up over the last few weeks. Thus, I would expect consumer stocks to probably hold above their current lows, even in the event of a possible business contraction later this year.

A RECORD DEFICIT of $4.32 billion was posted by the U.S. for the first quarter's international payments account. Though more than three times as wide as the deficit for all of 1976, the quarter's showing wasn't a surprise. It was due to higher oil imports.



The money situation is being complicated by the record deficit in the US International Payments, which is probably running at a deficit rate of about $30 billion for the year. The US has had a trade surplus in 96 out of the last 100 years, so the current situation is a bit gruesome. The huge US deficits are presenting the possibility of a run on the dollar this summer, and if that occurs there will be pressure on interest rates. The bulk of the deficit stems from imported oil, and as yet the Carter Administration has failed to come up with an energy plan that can correct the energy mess. But figures don't lie and the deficits are real. This little chart from the London *Economist* shows the widening trade deficit, which began in early 1976. It is very serious, and I expect the Administration will start treating it very seriously by year's end.

Actually, what Carter has come up with is a new Dept. of Energy with an initial budget of $10.6 billion. This amounts to the value of all the oil that the US imported from Saudi Arabia last year. I'll repeat what I wrote in the last Letter: the single most important thing the US Government can do for its citizens at this time is to get smaller, contract, lose weight, shrink!

BERMUDA: Well, we made it; two days in New York, and four days in Bermuda, including a speech which I made before the *National Committee for Monetary Reform*. You may wonder why I am interested in "monetary reform." I'm interested in the future of the dollar as a "store of value" (don't laugh) and as legal tender. The Committee is for non-inflationary hard money, and they are sincere. They are also in favor of a convertible (into gold) dollar, and I am for this but not hopeful that it will happen.

At any rate, NYC was (to my mind) more depressing than ever, although we met many brave and exciting people who "love it" and swear by it. I felt that way about NYC up to about 1950, but after, that it was a case of more crowding, more dirt, more crime, more inconveniences, and more just plain hassle. West Coasters who have never seen Gotham will be shocked by the filth, the garbage, the cans and bottles. And even worse, it's as if the canines have taken over the City, via the raised leg. I love dogs, but NYC has become a doggy sewer!

Bermuda is clean, humid, rural, quaint, low key. The island probably possesses the world's most beautiful beaches (the South Shore), and also the world's bluest waters. With a population of about 60,000, I must say I've never seen so many people do so little. If there's any kind of industry on the island, we didn't see it, unless you can call selling T-shirts to tourists an industry (and most of the shirts are made in the US!)

We spent much time with old buddy, Harry Schultz, and his wife Jo. We talked about everything, including money, gold, S.Africa, the investment advisory business and the fact that I don't like to travel. Harry admitted that if he had to live in the US, he would pick La Jolla, and here, of course, I agree. We discussed the fact that the investment advisory business is now "very rough." Like the brokerage business, the advisory business is undergoing a big shakeout. We discussed what people want in a service. I feel that the personal service (written by one man) should reflect what that man is doing, thinking and seeing in the market. I feel that too many advisers try to be "geniuses," they try to tell their reader what to do on a day-to-day basis, and they neglect the simple fact that specific advice is not usually followed and often proves wrong or frustrating, while information, methods, ideas, overviews are generally more valuable and remain with the reader long after the specific advice is just a bad memory.

Because of California's drought, I was particularly interested in Bermuda's drinking water techniques. All Bermuda buildings (by law) must have water collectors on their roofs. The roofs are made up of many ridges of white cement which collect the plentiful rain water. Such procedure would hardly help us in San Diego. I think it has rained twice here in the last year! In fact, the Russells just removed all our grass and have turned our former lawns into a most interesting Cactus garden.

I'll admit it. I got sort of fidgety after being in Bermuda four days. Not enough action there for me, and not enough access to the news. But the world is getting smaller. Bermuda gets the New York papers and the *Wall Street Journal* in the late afternoon, and that's really pretty good. It's better than California was when I arrived here in 1961.

On the long plane ride back, we discussed with the personnel the horrendous waste of food on the planes. By law, everything that isn't eaten on the flight must be considered waste and disposed of. Roasts, vegetables, bread, salads, desserts, thousands and thousands of pounds of it (all perfectly edible) must be jettisoned each month. It's sickening and immoral. Some provision should be made to give this food to the poor or to someone. I hate waste, and the airlines waste of food always makes me livid.

THE "NEW GOLD" ? Real estate brokers across the country are talking about sales in Delaware's "hunt country," in New York City, in Palm Beach, in Southern California, sales to foreigners. From Europe and from South America the money is pouring in. It's "flight capital" looking for a safe investment, a place to land "just in case my country goes to the Communists." The interest is also flowing to Eurodollar bonds, which are bonds sold by American corporations in Europe but payable only in dollars. Foreigners, according to the Dept. of Commerce, now own $70 billion worth of US stocks and bonds. Foreign real estate holdings are also huge, but I'm not sure if anyone has figures on this.

I read all this and I wonder, have Europeans opted for Eurodollar bonds and US stocks and bonds and US real estate instead of gold? After all, US land has been appreciating, but more important, the foreigner may think like this: "I want a place to go just in case the going gets rough here in ....., and the safest place in the world is the US. If the US goes under, everything will go, and in that case gold won't be any help. So rather than gold, I'll buy a condominium in NYC or some land in Southern California."

This is from a June 23 article in the *Christian Science Monitor*, *"Traditionally, when Europeans have been nervous they have purchased gold bullion. However...fewer Europeans are doing this now since it costs a lot of money to hold onto gold. There is a carrying charge and storage fees. However, with Eurobonds you get 8½% interest. And as most Europeans know, at $140 per troy ounce, there is a lot of gold in the world."*

How about "old gold," better known as gold bullion. I continue to think that bullion will be marking time over coming months. I say this because I do not detect anything exciting in the technical pattern of gold, nor do I see anything big coming up on the inflation (rate of inflation) front. Neither am I bullish on silver, and I will be bearish on silver if it starts breaking under 4.25 per ounce.

When you talk about gold, you can not avoid talking about S.Africa. The US policy towards S.Africa has now crystallized, and the policy points to disaster. Liberals in S.Africa are willing to work towards better conditions for blacks. The one thing *no* white S.African is willing to do is follow a policy of self-destruction. Yet the US now insists on majority rule (i.e., black rule).The new US position will most definitely result in corporations cutting back on investments in S.Africa. This in turn will worsen the economic plight of the blacks. Thus, the US has its head in the sand, while white S.Africa is unyielding. It's the formula for conflagration.

LATE NOTES: In his latest report, economist *Eliot Janeway* presents what I think is an excellent description of what's going on in the market and in the economy. The auto area, says Janeway, is *"the only genuine core of strength in the entire economy. Laboring under the delusion that the consumer will lead us over the top is about as realistic as betting on a Nixon comeback....The markets have been telegraphing their punches. They are saturated in excess liquidity, all dressed up with nowhere to go. This in turn accounts for the downward slide in interest rates, especially longer-term rates. When there's no economic use for money, as there isn't now, rates on term money sag; money rates sink, too; and the stock market takes off..... the markets ate feeding on the failure of the economy."* The real bull market, he states, is in the *"high-yielding 'money' stocks."* The *"utilities and allied (money) groups are lagging behind the bond market."*

I agree with Janeway, and I feel that what we are seeing now is a market basically "floating" on easy money rates. The Dow stocks seem to be reflecting informed investors' doubts about business prospects while the A-D ratio seems to be reflecting the condition of excess liquidity and the urge for high-yield, values and bargains. Nevertheless, no analyst worth his salt can ignore the Dow when it refuses to confirm, when it is sluggish, when it diverges from the rest of the market.

As this is written the breadth of the market (A-D ratio) is at new highs, the D-J Industrial Average has failed to better its nearest peak in the 941-943 area, and the Transports have begun to lag and lag dramatically. This Letter is an investment letter, not a "buy, buy" sheet, and personally, at this point, I feel safer in high-yielding bonds than I do in the technical hodgepodge which characterizes the NYSE. We're not playing with plastic chips or Monopoly money, we're playing with hard, after tax cash. I'll wait for this market to straighten out, and 9% in bond yields while I'm waiting doesn't bother me at all.

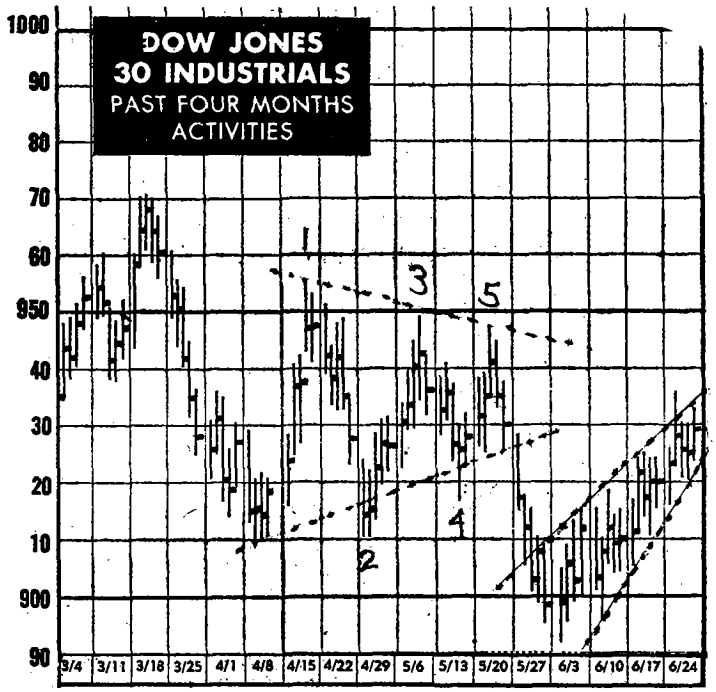
HUMPHREY NEILL: Alas, when we got home from Bermuda there was a letter waiting for us from Mrs. Humphrey Neill. Humphrey died on June 6. It was a sad day for me and all of us who have followed his words and his wisdom over the years.

Humphrey Neill developed the famed "theory of contrary opinion," a way of thinking that has helped dozens of market analysts over the years and a method that has saved many of us embarrassment, losses and perhaps the bulk of our capital time after time. More than that, however, Humphrey was an honest man, an original thinker, and a lifelong market student. I've read Humphrey's market, social and political comments ever since I started in this business. Humphrey had always encouraged me, probably encouraged me most by taking what I wrote seriously and commenting on it.

So Humphrey, you taught a lot of us to think in a manner which I always referred to as healthy skepticism. I remember you telling me that "when everybody is thinking the same, nobody's thinking." That lesson has been valuable to me in the market and in my personal life. Humphrey Neill taught me that a man can be an optimist without being an idiot, that a man can be constructive at all times without being mindless. And for me, that was a hard lesson.

PATTERNS: I couldn't resist including this daily chart of the Dow showing the action (drawn to arithmetic scale) from March to the present. What we see here is the plunge from the March peak to the early-April low. Then a perfect 5-leg triangle appears. Such triangles are usually "continuation patterns," and by that I mean that the ultimate resolution of the triangle is usually in the direction of the movement prior to the formation of the triangle. Since the action prior to the triangle was down, it might have been expected that the triangle would resolve itself in the downward direction. This is what occurred as the Dow broke out of the triangle–down to the 1977 low of 898.66 (May 31).

Following the May 31 low, we have seen the formation of a fascinating rising wedge pattern. Such patterns generally imply a slow but persistent erosion of buying power, and it remains to be seen whether such will be the case. At any rate, these chart puzzles are the kind of thing that has kept me absorbed in the stock market action for the better part of my adult life.



To go further, any move by the Dow to the 920 level or lower would serve to break down the wedge pattern. At that point, my "perfect scenerio" would be a Dow slide to a new 1977 low and a thoroughly oversold market. Should that occur, my interest in stocks for the near term would increase tremendously.

On the other hand, a push by the Dow above 947.76 (point 1 on the triangle) would leave me in a quandry, since in my opinion it would suggest a potential upside "blow-off" with perhaps enough speculative steam in it to take the Dow to the old highs.

My quandry in that case would be in advising subscribers what to do. I am always skeptical of a market where I am not willing to advise large investment positions. I am aware that the usual "out" for advisories is to suggest selected strong stocks with the proverbial close stops. But I also know that such positions frequently bring losses of about 15%, and four such speculative ventures on the fail side can amount to a loss of more than half one's capital.

The current computations of the three moving averages (MA's) of the Dow are as follows: the 4-week MA is 914, the 13-week MA is 925 and the long-term of 50-week MA is 955. Thus the three MA's continue in the bearish position with the short-term under the intermediate-term and the intermediate-term MA below the long-term or 50-week MA.

The bearish spread between the 13 and 50-week MA's increased to 30 points last week, the widest bearish spread since the 13-week MA plunged below the 50-week MA late last year.

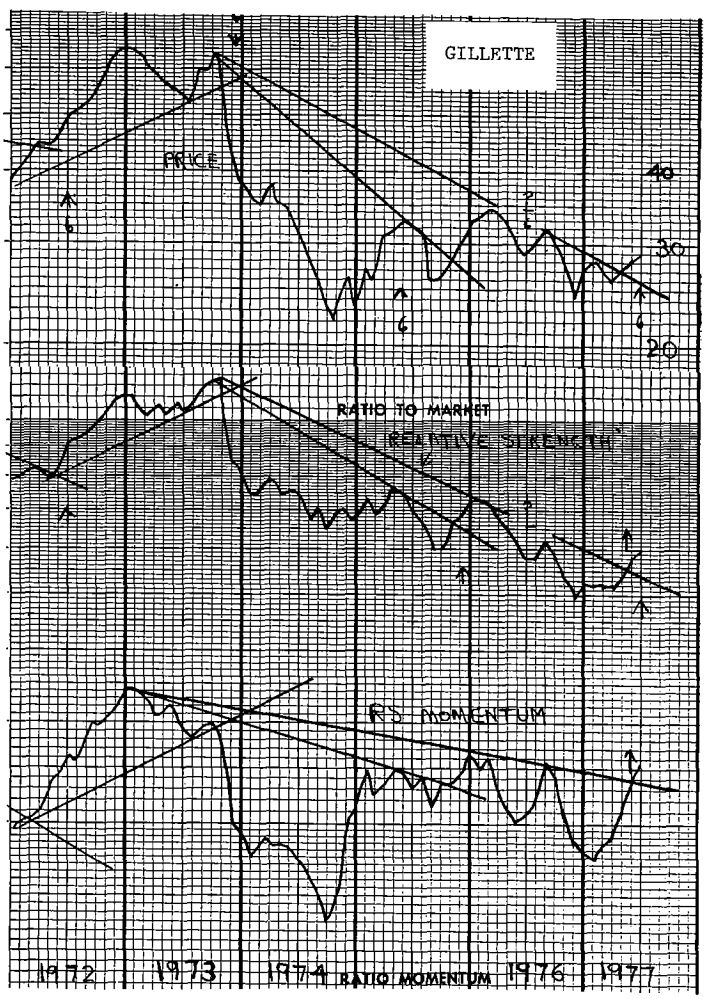
A study of the interplay of the moving averages shows that the greatest portion of any extended movement will come **after** the 13-week MA crosses the 50-week MA. Thus, if a major advance lies somewhere ahead, the greatest portion of it will probably materialize **after** the 13-week MA crosses above the 50-week MA. This cannot happen soon, and this is another reason why I am in no hurry to rush into equities at this time.

From the standpoint of the trader, certainly it might prove worthwhile to wait until the Dow musters the strength to at least push its 4-week MA above the 13-week MA. This is the sensitive "bullish alert," and even this has not yet occurred.

WHENEVER I write 7 pages instead of the usual 6, you can figure one or more of the following are true: (1) business is good, (2) I have more to say than I have room for, or (3) the market is tough, and I'm "all over the place." Today, all three conditions are true.

I haven't said a lot about individual stocks lately, but in general I will say that the basic industry stocks are not getting anywhere, the secondary stocks are *selectively* strong, not strong across the board, and the financial groups in general are showing the real strength. This includes the Utilities, savings & loans, and many high-yield investment-grade stocks.

On a relative strength basis, four stocks have popped onto the bullish list over the past few months, and they are *Reading & Bates, Pullman, Gillette* and *Hoover.* You may wonder what a "good realtive strength" chart looks like, and I'm including *Gillette* (chart from Ray*Signals, 43 Lake Ave., Montrose, PA 18801). The top line shows the actual price (monthly), the second line shows the relative strength of the stock against the S&P 500, and the bottom line shows the rate of change (six month basis) of relative strength. On all counts, *Gillette* has turned bullish. Somebody on Wall Street knows something. At least, that's what the charts imply.



NEXT MAILING: July 8th